

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 FEA-02

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

FRB-03 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /249 W

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R 171616Z JUL 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 4769

INFO AMEMBASSY BEIRUT

AMEMBASSY BRASILIA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L CARACAS 6652

E.O. 11652: GDS

TAGS: ENRG, VE

SUBJECT: OCCIDENTAL ANNOUNCES NEW OIL STRIKE;

CHAIRMAN HAMMER VISITS CARACAS

SUMMARY: IN A PRESS CONFERENCE JULY 15, ARMAND HAMMER, CHAIRMAN OF
OCCIDENTAL PETROLEUM CORPORATION, ANNOUNCED NEW OIL DISCOVERY IN

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SOUTH LAKE MARACAIBO, AND CALLED ON AMBASSADOR AFTERNOON OF JULY

16 TO ELABORATE ON COMPANY PLANS IN VENEZUELA. END OF SUMMARY

1. DR. HAMMER ANNOUNCED TO PRESS THAT OCCIDENTAL HAS BROUGHT IN A NEW WELL IN BLOCK E OF ITS SERVICE CONTRACT AREA IN SOUTH LAKE MARACAIBO WITH INITIAL TEST OF 1,956 BARRELS OF OIL AND 20.8 MILLION CUBIC FEET OF NATURAL GAS PER DAY. THIS WELL, WHICH WAS BROUGHT IN AT 18,285 FEET, WAS SECOND SUCCESSFUL ONE IN BLOCK E. OIL FROM THIS WELL HAS API RATING OF 39.2 DEGREES. COMPANY HAS THIRD WELL IN BLOCK A, TESTED AT 5,000 B/D.

2. HAMMER STATED THAT NEW WELL IS ESPECIALLY IMPORTANT AS HIS COMPANY IS INTERESTED IN USING GAS TO PRODUCE AGRICULTURAL FERTILIZERS. HE INDICATED THAT IT APPEARED TO BE A LARGE GAS FIELD. SUBJECT OF USING NATURAL GAS FOR FERTILIZER PRODUCTION WOULD BE ONE OF SEVERAL WHICH DR. HAMMER WILL DISCUSS WITH PRESIDENT PEREZ IN MEETING ON JULY 17. ANOTHER SUBJECT IS EXPLOITATION OF ORINOCO PETROLEUM BELT, FOR WHICH HAMMER SAID OCCIDENTAL HAD NEW TECHNIQUES WHICH WERE FAR LESS COSTLY AND MORE EFFECTIVE THAN THOSE CONTEMPLATED BY OTHER COMPANIES.

3. DR. HAMMER SAID HE WOULD NOT PROPOSE A DEAL IN VENEZUELA ON SCALE OF 20-YEAR CONTRACT HIS COMPANY HAS WITH RUSSIA, BUT THAT HE FEELS COMPANY AND VENEZUELA COULD BENEFIT FROM A SIMILAR ARRANGEMENT. HE STATED THAT HIS COMPANY RECOGNIZES SOVEREIGN RIGHT OF VENEZUELAN GOVERNMENT TO TAKE ANY STEPS IT CONSIDERS NECESSARY CONCERNING PETROLEUM CONCESSIONS. HE POINTED OUT THAT OCCIDENTAL IS FUNCTIONING PROFITABLY IN LIBYA AFTER GOVERNMENT'S TAKE-OVER OF 51 PERCENT OF OWNERSHIP, AND IN SOVIET UNION WHERE STATE CONTROLS 100 PERCENT OF ALL ENTERPRISES.

4. ACCORDING TO HAMMER, OCCIDENTAL'S PETROLEUM SERVICE CONTRACT HAS MANY ADVANTAGES OVER OLDER TYPE OIL CONCESSIONS THAT ARE SUBJECT TO NATIONALIZATION. ARRANGEMENT WITH VENEZUELAN GOVERNMENT IS ONE WHERE GOVERNMENT OWNS 100 PERCENT OF OPERATIONS WHILE OCCIDENTAL PROVIDES FINANCING FOR PROJECTS AND IN EFFECT IS ACTING STRICTLY AS A CONTRACTOR. UP TO CURRENT TIME OCCIDENTAL HAS SPENT \$55 MILLION IN VENEZUELA WITHOUT HAVING EXPORTED A SINGLE BARREL OF OIL.

5. COMMENTING ON WORLD OIL PRICES, HAMMER SAID THAT THEY HAVE BEEN MUCH TOO LOW FOR MANY YEARS AND HAVE NOT KEPT PACE WITH PRICES OF OTHER PRODUCTS, THEREFORE AN ADJUSTMENT WAS DUE. HE DOES NOT FORESEE
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ANY REDUCTION OF A GREAT MAGNITUDE AND FEELS THAT PRICES ARE AT A TEMPORARY LOW BECAUSE OF LOWER SUMMER DEMAND, BUT CAN BE EXPECTED TO RISE IN THE FALL. FOR THE LONG RUN, OIL PRICES WILL DEPEND ON ALTERNATIVE SOURCES OF PRODUCTION SUCH AS PRODUCTION OF PETROLEUM FROM COAL AND OIL SHALE.

6. IN CALL ON AMBASSADOR, DR. HAMMER BAGAN WITH STATEMENT THAT HE WANTED TO ASSURE HIM THAT OCCIDENTAL HAS NO INTENTION TO UPSET U.S.

POLICY OBJECTIVES VIS A VIS VENEZUELAN PETROLEUM. MUCH OF WHAT HE SAID IN PRESS CONFERENCE WAS FOR PUBLIC CONSUMPTION. HE WISHED TO HAVE

AMBASSADOR'S ASSESSMENT OF PRESIDENT PEREZ BEFORE CALLING ON HIM AND ASSESSMENT OF GOV REVERSION POLICY.

7. DR. HAMMER POINTED OUT THAT COMPANY'S THREE-YEAR SERVICE CONTRACT WILL EXPIRE JULY 29 UNLESS DISCOVERY WELLS ARE DECLARED COMMERCIAL. MINISTRY OF MINES OFFICIALS TELL OCCIDENTAL IT WILL BE SEVERAL MORE WEEKS BEFORE FINAL DETERMINATION ON BLOCK E IS MADE. HAMMER WAS PROMISED LETTER TODAY, JULY 17. BY CVP PRESIDENT CARNEVALI, GRANTING EXTENSION OF SERVICE CONTRACT UNTIL COMMERCIAL DETERMINATION HAS BEEN MADE.

8. ASKED WHAT ASPECT OF ORINOCO PETROLEUM BELT HE INTENDED TO DISCUSS WITH PRESIDENT PEREZ, DR. HAMMER SAID THAT UNDER TERMS OF SERVICE CONTRACT WHEN DISCOVERIES WERE DECLARED COMMERCIAL, COMPANY HAS OBLIGATION TO SPEND \$1 MILLION ON OIL TECHNOLOGY IN VENEZUELA. THEY HAVE NOT WAITED FOR LEGAL REQUIREMENTS TO BE MET PRIOR TO COMMENCING THIS PROGRAM AND HAMMER'S INTENTION IS TO OFFER COMPANY'S TECHNOLOGY FOR FURTHER STUDY IN ORINOCO PETROLEUM BELT, USING THESE FUNDS. HE ALSO WILL MAKE STRONG POINT OF COMPANY'S PETROCHEMICAL

AGREEMENTS WITH RUSSIA IN AN EFFORT TO STIMULATE PRESIDENT PEREZ' INTEREST IN A FERTILIZER AGREEMENT WITH OCCIDENTAL. HAMMER SAID HIS COMPANY COULD HAVE OUTSTANDING TECHNICIANS AND MANAGERS ON SITE AT EL TABLAZO ALMOST IMMEDIATELY IF GOV SO INCLINED. HAMMER DID NOT APPEAR TO BE AWARE OF EXISTENCE OF EL TABLAZO AND MORON PETROCHEMICAL COMPLEXES AT ONSET OF DISCUSSION. AFTER AMBASSADOR'S BRIEFING IT WAS OBVIOUS THAT HAMMER WILL USE LAMENTABLE RECORD OF EL TABLAZO START-UP AS AN EXAMPLE OF HOW HIS COMPANY CAN BE USEFUL TO GOV. WE CAUTIONED HIM, HOWEVER, TO BE DISCREET IN ORDER NOT TO STIR UP NATIONALISTIC RESENTMENTS IF HE SHOULD BE THOUGHT TO BE CRITICIZING

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EFFICIENCY OF VENEZUELAN TECHNICIANS.

9. COMMENT: HAMMER TOLD AMBASSADOR THAT HIS VISIT TO VENEZUELA AND BRINGING IN OF NEW DISCOVERY WELL SAME EVENING WAS PURELY COINCIDENTAL.

WHILE POSSIBLE, TIMING SEEMS FORTUITOUS TO COMPANY EFFORT TO HOLD ON TO SERVICE CONTRACT, AND THUS A Foothold IN VENEZUELAN OIL PICTURE. ARMAND HAMMER HAS TYPE OF CHARISMA WHICH WILL GREATLY APPEAL TO PRESIDENT PEREZ AND IT IS CONCEIVABLE HE COULD CARVE OUT FOR HIS COMPANY A MUCH LARGER PIECE OF THE ACTION IN NEW OIL ARRANGEMENTS NOW BEING FORMULATED. FOR EXAMPLE, HE SPOKE WITH GREAT ENTHUSIASM OF FERTILIZERS TO COUNTRIES OF ANDEAN PACT.

10. DR. HAMMER DEPARTS TODAY FOR LIMA TO SEE PRESIDENT VELASCO. HE IS ENTHUSIASTIC OVER OXY'S PROSPECTS IN EASTERN PERU

AND HAS IN MIND ALSO SUPPLYING OIL TO BRAZIL VIA IQUITOS BY
TANKER BARGES DOWN THE AMAZON.
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Message Attributes

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